

Company Result

28 August 2020

UMW Holdings Berhad

Bleak quarter

HOLD
Maintained

Share Price	RM2.61
Target Price	RM2.40

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	3049.25
52-week price Range	RM1.65-5.23
Beta (against KLCI)	1.85
3-m Average Daily Volume	2.18m
3-m Average Daily Value	RM5.85

Share Performance

	1m	3m	12m
Absolute (%)	9.7	2.4	-47.7
Relative (%-pts)	12.3	15.0	-46.5

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	51.50
EMPLOYEES PROVIDENT FUND	12.75
YAYASAN PELABURAN BUMIPUTRA	7.32
ESTIMATED FREE FLOAT	27.87

Historical Chart



Source: Bloomberg

Nursuhaiza Hashim

03-87361118, ext. 752

Result

- **UMW Holdings Berhad (UMW) recorded a core net loss of RM79.8m during 2Q20 as compared to a core net profit of RM 31m in the previous quarter and RM89.3m same period a year ago.** Besides, revenue stood at RM1.5b, which deteriorated 27.8% qoq and 48.5% yoy.
- **As for 1H20, the Group registered a core net loss of RM48.8m compared with a core net profit of RM172.5m.** On the same note, revenue depleted 36.6% yoy to RM3.6b.
- **Results miss estimates.** 6M20 core net loss of RM48.8m was substantially below our in-house and market expectation of full year earnings estimates. The sluggish result was dented by disappointing earnings from Auto and Equipment segment despite improved earnings from M&E segment.

Comment

- **Subdued Toyota and Perodua sales during MCO.** Auto division's registered a loss before tax (LBT) of RM41.7m during 2Q20 (vs PBT of RM53.7m and RM151.1m in the last quarter and same period of last year) amid sluggish revenue which down 30.5% qoq and 53.8% yoy. Moreover both revenue and PBT during 1H20 slumped 95.6% yoy and 40.9% yoy respectively, no thanks to lockdown during MCO period. Car sales were heavily affected after closure of business operation for almost two months (only started operation on 12th May) in which domestic Toyota and Perodua sales diminished 41.8% yoy and 39.1% yoy respectively during 1H20. The Group has launched all-new Toyota RAV4 on June'20 and has started to take order for upcoming two new CKD models, which will be held for its official launch in early next year. For 2H20, we expect sales for both car makers to recover, underpinned by sales tax exemption. However, we reckon that overall Auto's performance for FY20 will be moderated as affected by COVID-19 pandemic.
- **Lesser industrial activities and MCO impact weighed down Equipment division.** Equipment PBT down 4.4% qoq and 30.5% yoy on the back of lukewarm revenue, down 19.3% qoq and 32.1% yoy. Besides, 1H20's PBT and revenue soothed 35.1% yoy and 28.1% yoy respectively. Massive contraction during 1H20 was dented by slower industrial activities such as construction, manufacturing, mining and logging activities which led to lower demand for heavy and industrial equipment. Looking forward, UMW

intends to adopt cost reduction measures, introduce new products line-up as well as collaboration with principals through marketing programs to lift overall division's performance.

- **Lower cost incurred lifted M&E's PBT margin during 1H20 despite disappointing revenue.** Manufacturing & Engineering's revenue down 26.2% qoq and 25% yoy amid slower PBT which slid 23.4% qoq and 39.3% yoy. However, PBT margin during 1H20 soared 18.9% yoy despite sluggish revenue of 10.3% yoy. Better earnings were spurred by lower operating cost from Aerospace business arising from cost optimization efforts. However, revenue was further bogged down by Auto components & lubricants business in tandem with decline in auto sales. Currently, Aerospace business is running 24/7 to deliver outstanding orders to Rolls-Royce. Management reckon that number of deliveries will be slightly lower than prior year as impacted by the pandemic. For Auto component business, UMW expects rising demand from OEM and REM markets and hence increasing its efficiency and capacity after completion of KYB-UMW plant expansion in 4Q20.

Earnings Outlook/Revision

- **We cut our earnings forecast for FY20F and FY21F by 12.7% and 6.5% respectively** in view of subdued car sales volume due to Covid-19 pandemic as well as eroded margins.

Valuation & Recommendation

- **Maintain HOLD call on UMW with a lower target price of RM2.40 (RM2.45 previously) following our earnings cut.** We roll over our valuation to FY21F, based on 13.3x FY21F PE with an EPS of 18 sen. Target P/E ratio assigned is slightly below its 5-year average PE of 14.1 x.
- **We are neutral on its outlook** as: 1) Auto division is dampened by stiff competition from other car makers; 2) Stringent loan approval and weak sentiment towards big ticket items amid Covid-19 pandemic; 3) Higher depreciation cost from Bukit Raja Plant; and 4) Fluctuation of foreign exchange (RM against Yen and USD).

Figure 1: Quarterly Figures

Year to 31 Dec	2Q20 (RMm)	1Q20 (RMm)	2Q19 (RMm)	QoQ % chg	YoY % chg	6M20 (RMm)	6M19 (RMm)	YoY % chg
Revenue	1,529.7	2,119.2	2,971.2	-27.8%	-48.5%	3,648.9	5,751.2	-36.6%
Operating Profit	(14.0)	45.7	104.9	N/A	N/A	31.7	199.7	-84.1%
Pre-tax Profit	(58.8)	63.0	150.4	N/A	N/A	4.2	290.9	-98.5%
Profit After Tax	(54.1)	48.8	113.8	N/A	N/A	(5.3)	224.6	N/A
Net Profit	(78.4)	44.3	57.2	N/A	N/A	(34.1)	143.7	N/A
Core Profit	(79.8)	31.0	89.3	N/A	N/A	(48.8)	172.5	N/A
Margin (%)				ppts	ppts			ppts
Operating profit	-0.9%	2.2%	3.5%	-3.1	-4.4	0.9%	3.5%	-2.6
Profit before tax	-3.8%	3.0%	5.1%	-6.8	-8.9	0.1%	5.1%	-4.9
Net profit	-3.5%	2.3%	3.8%	-5.8	-7.4	-0.1%	3.9%	-4
Core profit	-5.2%	1.5%	3.0%	N/A	-8.2	-1.3%	3.0%	-4.3

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY19	2Q20 (RMm)	1Q20 (RMm)	2Q19 (RMm)	QoQ % chg	YoY % chg	6M20 (RMm)	6M19 (RMm)	YoY % chg
Segmental Revenue								
Automotive	1,102.0	1,585.9	2,386.4	-30.5%	-53.8%	2,687.9	4,549.0	-40.9%
Equipment	233.2	289.2	343.6	-19.3%	-32.1%	522.4	726.5	-28.1%
M & E	183.3	248.5	244.5	-26.2%	-25.0%	431.9	481.6	-10.3%
Segmental PBT								
Automotive	(41.7)	53.7	151.1	N/A	N/A	12.0	275.3	-95.6%
Equipment	24.6	25.8	35.5	-4.4%	-30.5%	50.4	77.6	-35.1%
M & E	8.0	10.5	13.2	-23.4%	-39.3%	18.5	15.6	18.9%
Segmental Margin (%)				ppts	ppts			ppts
Automotive	-3.8%	3.4%	6.3%	-7.2	-10.1	0.4%	6.1%	-5.6
Equipment	10.6%	8.9%	10.3%	1.7	0.2	9.6%	10.7%	-1.0
M & E	4.4%	4.2%	5.4%	0.2	-1.0	4.3%	3.2%	1.1

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2016	2017	2018	2019	2020F	2021F
Revenue	10,436.8	11,066.6	11,303.6	11,739.0	8,364.1	9,673.8
Operating profit	(484.6)	123.7	335.2	521.5	292.1	328.1
PBT	(282.1)	266.6	593.3	754.8	427.5	524.9
Net profit	(1,658.0)	(640.6)	172.9	454.5	135.7	207.7
Core profit	(401.8)	(85.8)	370.3	260.2	135.7	207.7
Core EPS (sen)	(0.31)	(0.07)	0.32	0.22	0.12	0.18
P/BV (x)	0.44	0.73	0.53	0.50	0.51	0.44
DPS (sen)	0.00	0.00	0.075	0.07	0.02	0.03
Dividend yield (%)	0.0%	0.0%	2.9%	2.5%	0.7%	1.0%
Operating margin (%)	-4.6%	1.1%	3.0%	4.4%	3.5%	3.4%
PBT margin (%)	-2.7%	2.4%	5.2%	6.4%	5.1%	5.4%
Net profit margin (%)	-15.9%	-5.8%	1.5%	3.9%	1.6%	2.1%
Net Gearing Ratio(x)	0.9	0.7	0.5	0.4	0.5	0.6
ROE (%)	-5.4%	-2.1%	6.5%	4.3%	2.3%	3.0%
ROA (%)	-10.2%	-6.4%	1.6%	4.1%	1.0%	1.3%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Zairul Azman (ext 746)
Nur Nadia (ext 741)
Siti Nur Nadhirah (ext 743)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Joanne Tan Hui Bin (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Nursuhaiza Hashim (ext 752)
How Chi Hoong (ext 754)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:
JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)